

# **Little Hoover Commission Testimony to Commissioners**

## **California Performance Review**

**Hon. Maurice P. McTigue**  
**November 18<sup>th</sup>, 2004**

### **The Machinery of Government**

#### Introduction:

The comments that I make in this paper are based upon the practical experience of being involved as a Cabinet member in the Government of New Zealand when that country was making massive changes to the machinery of government. The comments that I make are not theories but are a recounting of actual changes made and the reasoning for those changes. I am also confining my comments to broad principles rather than minute detail however I am happy to provide much more detail through questions at the hearing.

The question posed that lead to this testimony was: What principles should drive the Commissioners consideration of the California Performance review? My answer to that query is another question which I will try to answer: What changes to the business practices of the State of California are most likely to improve the result performance of government agencies?

Governments are made up of the following two structures control agencies and delivery organizations.

#### Control Agencies:

Typically there are normally the following control agencies with generally some form of the roles I describe here:–

The Administration: normally responsible for policy development and setting the government's agenda

The Legislature: Empowered to pass laws, approve taxes and determine the both the quantity and the purposes upon which tax monies will be spent

The Finance Department: Responsible for the preparation of the budget (the governments spending plan), the monitoring of spending to see that it complies with the instructions in appropriations and to provide economic advice to government

The Personnel Department: Responsible for the government's human capital and ensuring that the government has the skills and talent necessary to carry out the

services necessary for the successful functioning of government. (This is frequently a weak and misunderstood role.)

#### Delivery Organizations:

Delivery organizations are those departments and agencies of government responsible for carrying out the activities of government and producing the desired Public Benefit determined by the political process. These organizations may undertake the delivery of these services themselves or sub-let that activity to other levels of government, to the voluntary sector, the non-profit sector, to private sector businesses or to other non-government groups. Regardless of the arrangement made the agency letting the activity should remain accountable for the result.

#### The Bureaucratic Model:

Most governments traditionally have operated a bureaucratic model as the means of delivering the public services determined by the political process. This model in very general terms worked on the basis of allocating a quantity of money to a particular activity that was directed at a societal issue. The allocation tended to focus on controlling inputs and accountability tended to concentrate on whether the money was spent on the identified activity and that the activity did indeed take place. In this model the benefit tended to be presumed because the money was spent as directed and the activity was completed.

#### The Results Based Model:

In recent times governments have started to question whether they were getting the public benefits they sought through the bureaucratic model and whether a better system of management might be available. This analysis has moved many governments to adopt a variety of new systems where the focus of accountability is on the production of results. This is an evolving process and no one system is perfect yet but the evidence points to improvements in both resource allocation and in the quantity of public benefit achieved. The difference in philosophy is that the results model focuses more of the accountability on the outcome and less on the outputs and inputs. For example the measures of success would be the reduction of crime not the number of prosecutions, the reduction of dependency not the numbers of people who received transfer payments, the number of new businesses attracted into the economy not the quantity of business assistance programs, etc.

#### Designing the Organizations of the Future:

If there is to be a move towards a results based culture then the structures of accountability and the relationship between the government and its delivery organizations needs to change. It is unreasonable to expect organizations and individuals to change to a new form of accountability unless they are given a structure that enables them to be able to succeed under this result based accountability regime.

The following are principals that in my opinion are essential to the success of any move towards results based accountability in government.

### Principle One: Certainty and Clarity

If the Government of California is to improve the wellbeing of its citizens and the health of its economy then achieving clarity and certainty with regard to government's intentions is the first place to start.

If people working in government are to be held accountable to a new standard then they need to know with precision what they are accountable for and to whom they are accountable. This means they need certainty in leadership and certainty in terms of what they are to deliver.

The organizations of the future should be managed by a Chief Executive Officer (CEO) who is chosen based on evidence of competency to do the job after a publicly advertised search for applicants.

Once chosen this CEO should be given a fixed term contract that can only be terminated for non-performance. There should be the opportunity for a once only extension of this contract at the end of the initial term but after that the appointee must leave.

The CEO should be directly accountable to a political person presumably a Cabinet Secretary who would negotiate with the CEO a performance contract that would determine if the CEO was doing the job expected. The Cabinet Secretary would have responsibility for identifying the outcomes the CEO was expected to produce and defining the core business of the organization but the CEO would be responsible for the operations of the organization.

In a similar manner the CEO would negotiate performance contracts with his or her management team and so on progressively down through the organization. The purpose of these performance contracts is to provide clarity at all levels of the organization but also to move the organization to a results culture.

To provide clarity with regard to what is expected to be delivered appropriations once passed by the Legislature would be converted into Purchase Contracts with the CEO. These would be legally enforceable public documents that could only be changed by agreement with all of the parties. These purchase documents would be the result of intense negotiations that had taken place between the Cabinet Secretary and the CEO to determine what outputs and in what quantity needed to be produced to achieve the outcome the government desired they would also be available to the legislature during its consideration of the budget. The CEO can challenge the Purchase Contract if in his or her view the contract is undeliverable.

Now there is a very clear basis for accountability, inability to deliver the outputs specified in the purchase contract could be grounds for dismissal of the CEO. However full delivery of the contract by the CEO and a failure to achieve the outcome sought would be a policy failure and the fault of the government because they bought the wrong goods and services. Because the CEO and the department is governed by the requirements of the purchase contract it is not possible for the department to be required

to undertake unfunded mandates during the year as they are required to deliver only what is in that purchase agreement. Any change to the activities of the department during the year must be reflected by changes to the purchase agreement. That means that the Cabinet Secretary or the Legislature must either agree to eliminate some current activity to fund the new activity or provide additional monies.

#### Principle Two: Authority to Manage

Given that negotiations between the Cabinet Secretary and the CEO have established the core business of the organization then latitude can be given in the following areas.

If the CEO and the organization are to have a realistic chance to succeed in producing results then there has to be given full authority to manage all the resources available in a manner consistent with achieving the results sought in the contract. This means full control over the number of staff, their remuneration and terms and conditions of employment, purchase of inputs, the management and disposal of capital assets and the location of new facilities. The development of a full set of books for the organization identifying all financial and physical assets, all revenues and all expenditures and complying with generally accepted accounting standards is essential. These books should be independently audited annually. It is also appropriate however to impose incentives like a capital charge to make certain that the government is getting best value out of its resources. By contrast however it is unacceptable to impose input controls on staff numbers or on the skill or grade levels of staff.

It is appropriate to have in the performance agreement with the CEO a clause reviewing the organizations performance status. This can be most effectively assed by measuring whether the government's ability to be effective in this organizations field has improved, remained static or diminished.

#### Conclusion:

While this short paper makes the recommendations in here seem rather simple straight forward and easy to accomplish let me assure you they are not. The details that are not present in this paper are prodigious and difficult but the end results are worthy of the effort. Some 16 years after initiating these changes in the government of New Zealand you would not find any advocates in the civil service for a return to the old management systems. Prior to making these changes public approval ratings for government organizations was about 40% five years later it was above 70% and it has remained consistently in this range. In my view the minimum standard we should expect from our public organizations is a performance equal to the top 5% of the fortune 500 companies in the private sector and given the right structure and the right incentives that can be achieved.

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